

Message Text

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ACTION EUR-12

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P R 151901Z OCT 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC PRIORITY 2578

SECDEF WASHDC PRIORITY

INFO USMISSION NATO BRUSSELS

AMEMBASSY LONDON

AMEMBASSY COPENHAGEN

CINC LANT NORFOLK

CINC USAREUR HEIDELBERG

CINC EUR VAIHINGEN

USDOCOSOUTH NAPLES

USLO SACLANT

USNMR SHAPE

S E C R E T BONN 17530

E.O. 11652: GDS

TAGS: MPOL, NATO, DA, UK, GW

SUBJECT: FRG DEFENSE SPENDING TRENDS

REFS: A. USNATO 5462 DTG 081700Z OCT 76;
B. BONN A-203 DTG JULY 14, 1976 (NOTAL)

1. THE EMBASSY SUPPORTS USNATO'S RECOMMENDATION THAT THE U.S. MAKE CLE TO THE FRG THE SERIOUSNESS WE ATTACH TO THE IMPLICATIONS OF GERMAN DEFENSE SPENDING TRENDS (REF A). AS REPORTED REF (B), THE EMBASSY'S ANALYSIS OF THE 1976 DEFENSE MINISTRY BUDGET SHOWED THAT IT REPRESENTED AN INCREASE IN CURRENT PRICE TERMS OVER THE 1975 BUDGET, A DECLINE IN CONSTANT PRICE, I.E., REAL, TERMS, BUT AN INCREASE IN REAL TERMS WHEN PERSONNEL COSTS WERE EXCLUDED. THERE WAS A 1.7 PERCENT NEGATIVE

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REAL GROWTH IN 1976 IF INFLATION, AS MEASURED BY THE

GNP DEFLATOR, WAS ASSUMED TO BE 4.6 PERCENT.

2. THE EMBASSY ALSO POINTED OUT THAT THE TWO PERCENT ANNUAL INCREASE IN REAL DEFENSE EXPENDITURES WHICH DEFMIN LEBER HAD INDICATED WAS THE FRG GOAL IN THE 1977-82 PERIOD REPRESENTED A POLITICAL AND ECONOMIC CHALLENGE FOR THE GOVERNMENT TO MEET.

3. THE EMBASSY BELIEVES THAT A NUMBER OF POSSIBILITIES EXIST REGARDING HOW AN APPROACH COULD BE MADE TO THE GERMANS FOR THE PURPOSE OF URGING REAL INCREASES IN DEFENSE SPENDING, IF NOT IN 1977, AT LEAST IN SUCCEEDING YEARS. FIRST, A LETTER FROM SECRETARY OF DEFENSE RUMSFELD TO LEBER MIGHT BE THE BEST MEANS TO CONVEY OUR CONCERN ABOUT THE ADVERSE TRENDS. HOWEVER, WE IN BONN ARE NOT IN A POSITION TO WEIGH THE APPROPRIATENESS OF THIS SUGGESTED APPROACH IN VIEW OF SECDEF'S RECENT CORRESPONDENCE WITH LEBER ON THE US-FRG TANK HARMONIZATION PROGRAM.

4. ANOTHER POSSIBILITY WOULD BE FOR AMBASSADOR STOESSEL TO EXPRESS CONCERN ORALLY WHEN HE PAYS HIS INITIAL CALLS ON LEBER AND FINANCE MINISTER APEL. THE DPC MEETING IN DECEMBER WOULD BE ANOTHER OCCASION FOR SECDEF TO RAISE THE MATTER WITH LEBER, BUT BY THEN IT WOULD BE TOO LATE TO HAVE ANY CHANCE TO AFFECT THE SIZE OF THE 1977 DEFENSE BUDGET.

5. SHOULD WASHINGTON DECIDE TO MAKE AN APPROACH, WE BELIEVE THAT IT WOULD BE DESIRABLE TO DO SO BY THE END OF OCTOBER, SINCE LEBER WILL BE MEETING WITH APEL IN NOVEMBER TO DISCUSS THE DEFENSE MINISTRY'S SHARE OF THE TOTAL FRG BUDGET. THE CABINET IS EXPECTED TO REACH A DECISION ON THE FMOD BUDGET BEFORE THE END OF THE YEAR, WITH THE DRAFT FMOD BUDGET BEING SENT TO THE DEFENSE COMMITTEE EARLY IN 1977.

HILLENBRAND

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